



# **City of Carlsbad 2014-15 Operating Budget and Capital Improvement Program**

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## **READER'S GUIDE TO THE BUDGET**

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This budget document has been designed to provide the public concise and readable information about the City of Carlsbad's 2014-15 budget. The budget is separated into three major sections: the Overview, the Operating Budget, and the Capital Improvement Program.

### **Overview**

The beginning of the budget document contains the City Manager's transmittal letter and overview information. The overview information will provide summary data to the reader for the Operating Budget and the Capital Improvement Program, as well as information on personnel allocations, debt management issues and the budget process.

### **Operating Budget**

The Operating Budget section has seven tabbed sections. The first section provides a summary of the Operating Budget and the remaining six sections provide detailed budget information for six main functional areas. The summary section begins with a budget overview, including revenue assumptions, information on the policies used to develop the budget, and an overview of expenditures. The overview is followed by tables providing detailed information on fund balances, revenues and expenditures. The following six sections are separated by functional area, which are Policy and Leadership, Administrative Services, Community Development, Community Services, Public Safety, and Public Works. Within these broad categories, the budget is organized on a department, or program group, basis. Summaries, financial and descriptive, are included for departments containing more than one program. The summary page is followed by detailed information for each program. Some departments consist of one program only, and thus only one page is included for them. For each summary and program, a financial history and the 2014-15 budget figures are presented. If applicable, narrative statements are also included describing program activities, associated workload measures or performance objectives, key achievements for 2013-14 and key goals for 2014-15.

### **Capital Improvement Program**

The Capital Improvement Program (CIP) is located in the back of the budget document. An overview of the CIP provides general information about the process used in preparing the budget for capital projects and describes how development information is used to project future revenues that fund these projects. In addition, major CIP projects are highlighted and discussed. The next section contains summary revenue and expenditure tables, by funding source, and a detailed project expenditure schedule listing the cost and timing of each future and current CIP project. Following this schedule are fund summary pages, which list the revenues and expenditures by fund, thus providing cash flow information and annual projected fund balances for each Capital Improvement Program fund.

### **Appendices**

The Appendices contain a detailed listing of the 2014-15 Planned Major Capital Outlay items by department. An Out-of-State Travel Detail is presented next. The last section of the Appendices provides information on accounting systems and budgetary control, the adopted Resolutions for the budget including the Gann Limit, a glossary, and a list of acronyms.



**Carlsbad City Council  
Fiscal Year 2014-15  
Strategic Goals**



***City Council continues to clarify and pursue the vision of Carlsbad that reflects the pride and quality of life.***

City of Carlsbad provides exceptional, top quality services on a daily basis by proactively listening, engaging and responding to its residents.

- **Balanced community development:** Be a city that connects community, place and spirit, through balanced and economically sustainable land uses.
- **Resident connection and partnership:** Be a city that embraces community connectivity through the effective use of technological and interpersonal mediums.
- **Communication:** Ensure that community members, council and staff are well informed, continuing to be a more responsive government while providing a high level of citizen confidence in its government.
- **Economic Development:** Strengthen the city's strong and diverse economy, supporting local businesses, attracting new businesses in targeted industries and solidifying the city's position as a key employment hub.
- **Environmental management:** An environmentally sensitive community by focusing on conservation, storm water, sewage collection and treatment, solid waste, and cost effective and efficient use of energy including alternative energy sources.
- **Financial health:** Pursue and implement proactive strategies that support sustainable economic health and manage city resources effectively.
- **Learning, culture and arts:** Promote and support continuous learning, cultural opportunities and the arts within the community and the city organization.
- **Parks, open spaces and trails:** Acquire, develop and maintain a broad range of open space and recreational facilities that actively address citizen needs which are fiscally responsible, and are consistent with the general plan and growth management standards.
- **Safe community:** Maintain a safe and secure community through collaborative partnerships. Public safety providers support high standards, deliver protection of life and property and encourage community involvement in prevention and preparedness efforts.
- **Transportation and circulation:** Provide and support a safe and efficient transportation system that moves people, services and goods throughout the city.
- **Water:** Ensure, in the most cost-effective manner, water quality and reliability to the maximum extent practical, to deliver high quality potable and reclaimed water incorporating drought-resistant community principles.

## ABOUT THE CITY OF CARLSBAD

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The City of Carlsbad is a unique coastal community located 35 miles north of the City of San Diego and surrounded by mountains, lagoons, and the Pacific Ocean. The city is governed by a five-member City Council under the Council/Manager form of government. Although the “village” dates back more than 100 years, Carlsbad incorporated in 1952 as a General Law city, and in 2008 became a Charter city. Currently, the city is over 90 percent developed and is expected to grow from a population of about 110,000 to 120,000 once its 39 square miles are built out. Industries in the area include a major regional shopping center; a specialty outlet center; 35 hotels offering over 4,000 rooms for tourist lodging; over 20 auto dealers; high technology, multimedia and biomedical businesses; electronics, golf apparel and equipment manufacturers; several business and light industry parks; and numerous land developers building single and multi-family housing in a variety of community settings.



The city provides the full range of services normally associated with a municipality including police, fire, parks and recreation, library, planning and zoning, building and engineering, various maintenance services, and administration. The city provides water services through the Carlsbad Municipal Water District, a subsidiary district of the city. The City Council serves as the Board of Directors for the Carlsbad Municipal Water District. Solid waste collection is provided through a franchise agreement with a local refuse collection service.

In addition to the usual city services, Carlsbad offers a wide variety of programs to help local residents and businesses. The city's Housing Authority administers federal housing assistance to 600 low-income households in Carlsbad. Older Carlsbad residents receive assistance through the city's senior citizen programs.

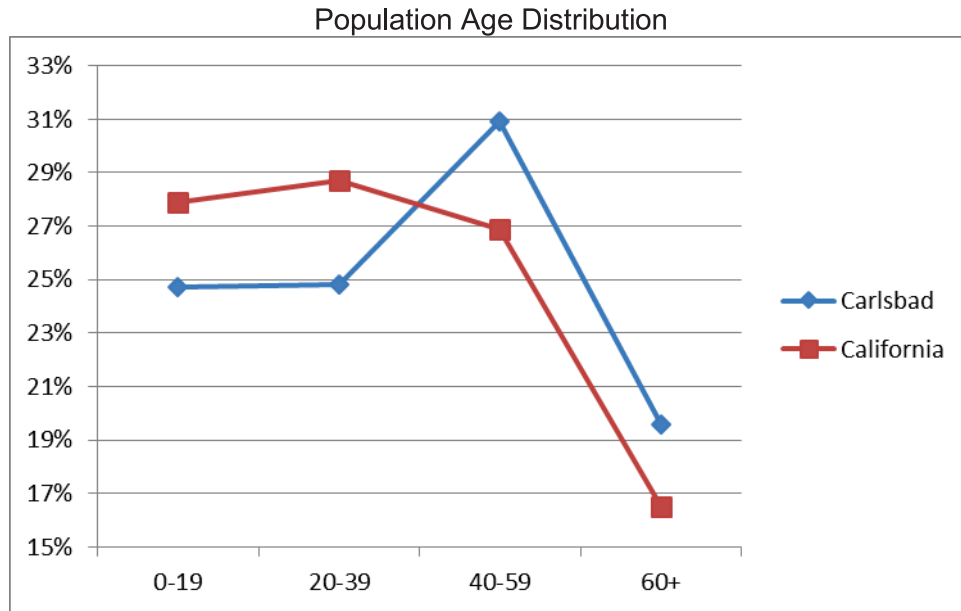
School programs and facilities are provided by four different school districts located within the city boundaries. The City Council has no direct control over these school districts; however, the Council recognizes the importance of quality school facilities and programs to Carlsbad's residents. Thus, the Council and staff work with the school districts on a regular basis.



## ABOUT THE CITY OF CARLSBAD

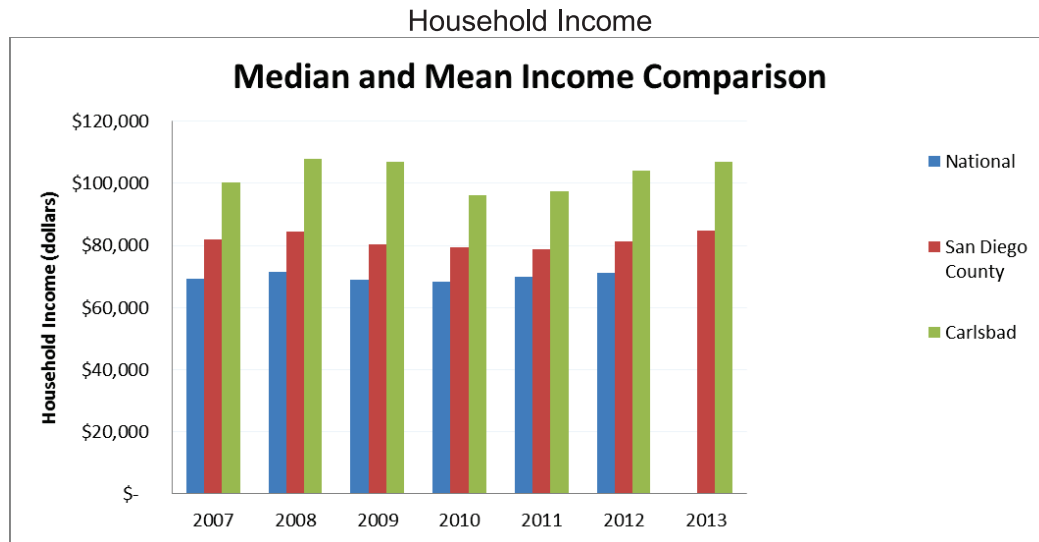
### Demographic and Economic Data

When comparing the percentage age distribution of the City of Carlsbad's population versus the State of California, Carlsbad's population has fewer people in the 0–40 age group, and a higher number of people in the 40+ age group.



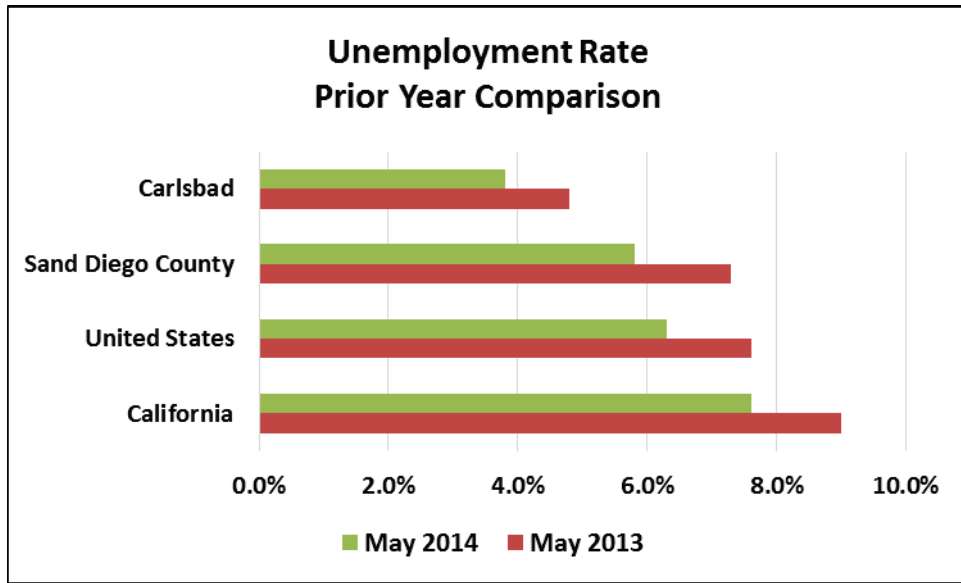
Source: US Census Bureau

Carlsbad's median and mean household income are substantially higher than the Nation, State, and County income levels.

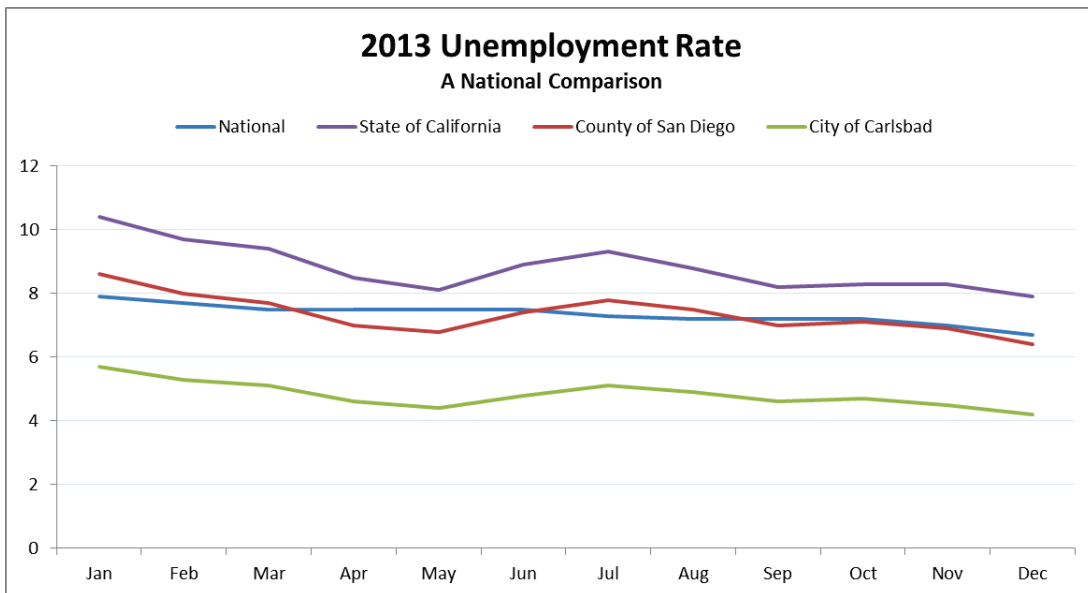


Source: US Census Bureau

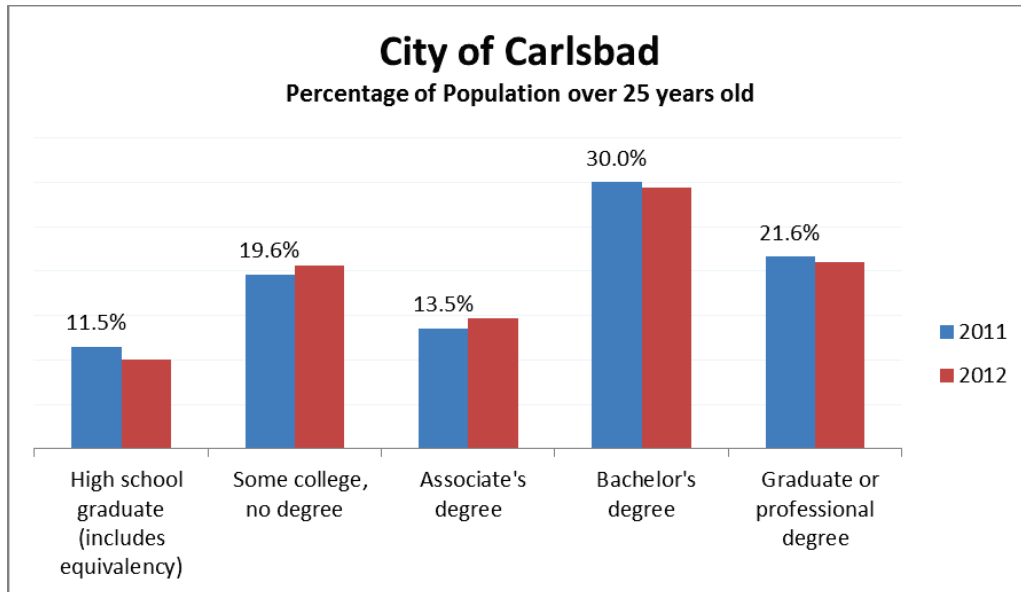
## ABOUT THE CITY OF CARLSBAD



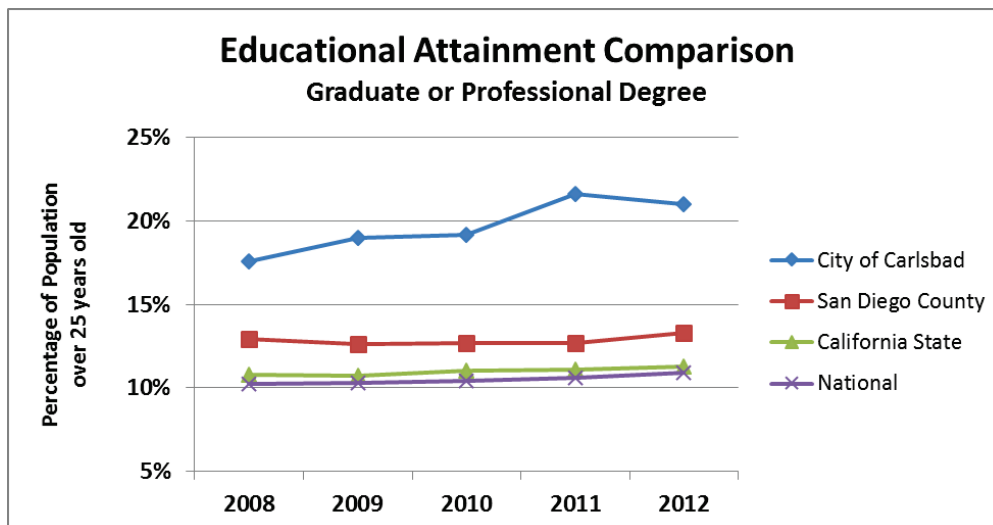
Source: State of California Employment Development Department



Source: Bureau of Labor Statistics

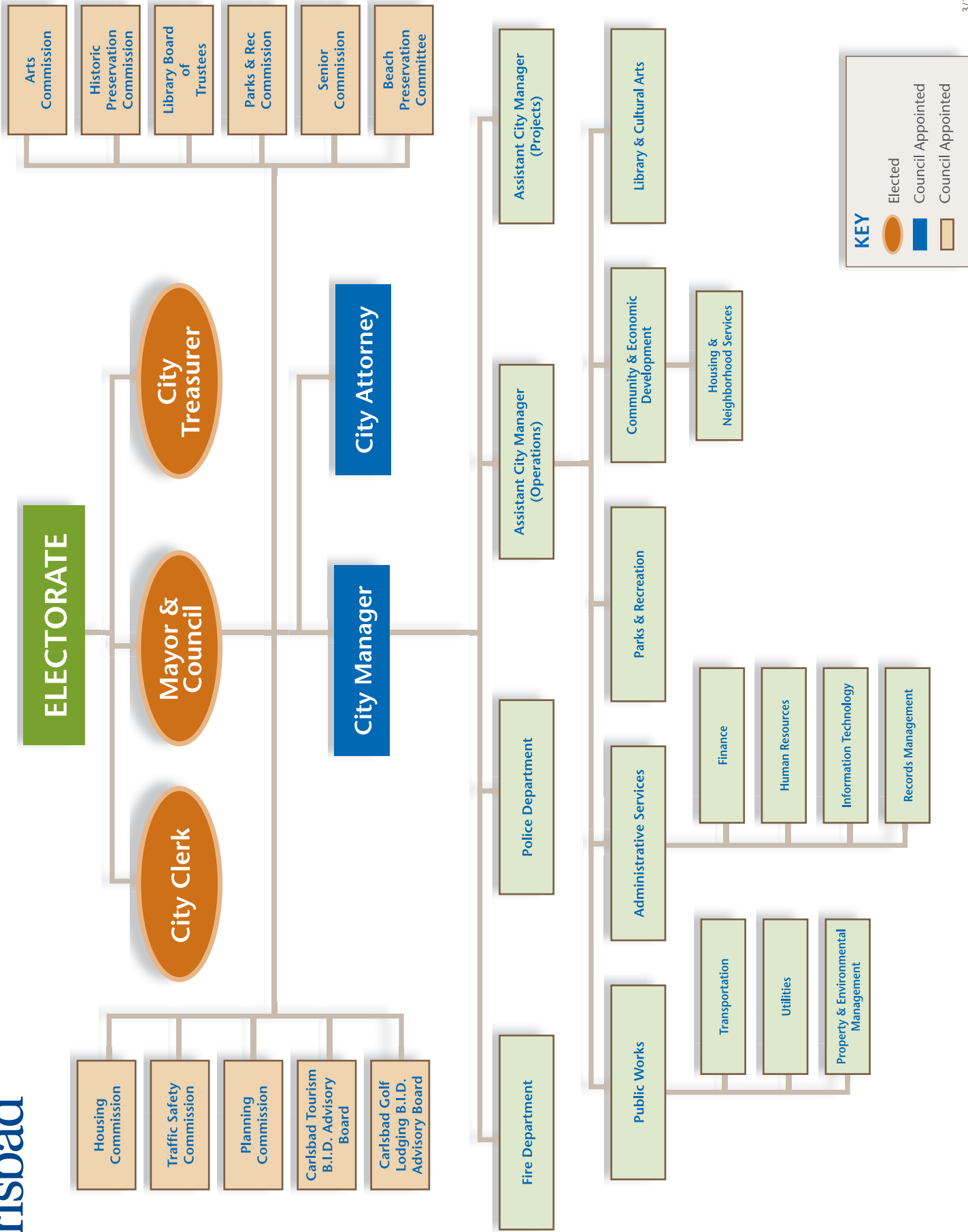


Source: US Census Bureau



Source: US Census Bureau

# Organization Chart







To the Honorable Mayor and City Council:

## **2014-15 BUDGET TRANSMITTAL**

I am pleased to submit the Fiscal Year 2014-15 Operating Budget and Capital Improvement Program for the City of Carlsbad. The combined budget totals \$297.1 million, with projected revenues of \$282.7 million. Revenues received in prior years will be used to fund some capital improvement appropriations in 2014-15. Of the total budget, \$227.4 million, or 77 percent, will be used to fund the operations of the city, while \$69.7 million, or 23 percent, will go towards capital improvements throughout Carlsbad. Our goal has been to prepare a comprehensive financial plan for services, programs, and capital projects that will assist the Council in the achievement of its vision for Carlsbad.

Over the past year, city revenues have increased in line with improvements in national and state economies. Moving forward, Carlsbad is poised to benefit from a strengthening housing market, increased demand for consumers goods, and strong tourism. This budget represents a shift in focus, as improving economic conditions allow the city to add resources and positions to address strategic needs, instead of responding to the fiscal implications of the worst recession since World War II. We continue to focus on fiscal responsibility, long-term fiscal sustainability, healthy reserves, and providing funding for aging infrastructure. However, this budget also aligns increasing resources with the goals of our community and increases overall operating expenditures in the coming year.

Citywide revenues are forecast to increase by \$8.5 million in the coming fiscal year, and General Fund revenues comprise \$5.9 million of that growth, an increase of almost 5 percent over FY 2013-14. Three major revenue sources make up four-fifths of the General Fund – property tax, sales tax, and transient occupancy tax (hotel tax). Property tax is expected to see the greatest growth in FY 2014-15, increasing by 6.6 percent to \$53.3 million. Sales tax will increase by slightly less than 2 percent, as taxable sales stabilize following an increase of over 2 percent in FY 2013-14. Transient occupancy tax, or hotel tax, is expected to increase by 3 percent, following a sharp increase of over 20 percent in the previous year, due in part to increased tourism and increased room inventory, such as the addition of the LegoLand Hotel.

The city's budget remains structurally balanced and provides additional resources in key areas. Funding was provided to bolster economic development in the city, including funding to attract a higher education institution, the addition of a fire marshal to streamline the planning process, and the introduction of a building inspector internship program. The operating budget also provides funding for technological advances, such as digital records management, which will allow city staff an alternative to storing and processing paper plans and blueprints. The budget also provides additional funding for the operation of Alga Norte Park, a public arts master plan, and increases grants for community arts. Structural budgetary issues, such as the increasing costs associated with water and electrical utilities, are also addressed in this year's budget

Overall, the city's total Operating Budget for FY 2014-15 has increased by \$12.6 million, or 5.9 percent, from the previous year. The General Fund budget increased by \$5 million, or 4.1 percent, compared to the previous year. Full-time staff increased by two positions and an additional 7.2 part-time staff were added in the operating budget. City enterprises, including the Water and Wastewater Funds, increased by \$3 million, primarily due to the rising cost of purchasing potable and recycled water. Internal service funds, which provide support services to city departments, grew by \$4.7 million, and included increases in General Liability, Workers Compensation, Vehicle Maintenance & Replacement, and Information Technology. The FY 2014-15 budget also captured the effects of the previous year's labor negotiations, which affected personnel costs for the city.

The Adopted Budget provides an additional \$69.7 million in the city's Capital Improvement Program, which brings total programmed expenditures to \$496 million for approximately 258 projects to build or improve the city's roads, parks, water and sewer infrastructure and civic projects. Some of the more significant projects for the coming year include major renovation and refurbishment at the Cole and Dove libraries and expansion of Carlsbad's water recycling facility.

Although economic conditions are expected to continue improving in the coming years, the city maintains fiscal policies and practices to mitigate the effects of unforeseen threats to our financial health. The city maintains a AAA credit rating, the highest possible, and adheres to strategies that will preserve our fiscal strength, including adequate funding for our reserves and providing resources for aging infrastructure.

In maintaining fiscal stability for the city, the City Council has adopted a responsible General Fund reserve policy, which ensures that adequate resources are available to mitigate cash needs that may result from unforeseen events, such as emergencies or natural disasters. The reserve policy sets a minimum General Fund reserve level of 30 percent of General Fund operating expenditures and a target of 40 to 50 percent of the General Fund operating expenditures. The current reserve is projected to be approximately 55 percent of General Fund operating expenditures for FY 2014-15.

The FY 2014-15 budget continues to provide funding for the maintenance and replacement of aging infrastructure, including facilities, streets, sidewalks, and drainage. As in past years, Council approved a contribution of 6.5 percent of forecast General Fund revenues to the Infrastructure Replacement Fund, adding \$8.3 million.

I would like to express my appreciation to the City Council for providing the vision and guidance that balance the attainment of community goals with our long-term fiscal health. I would also like to acknowledge the dedication and cooperation of our city staff, who worked to align resources with the goals and values of our community and produce an operating budget and capital improvement program that pave the way for continued success and maintaining the high service levels that have become the hallmark of our city. The City of Carlsbad is well-positioned to maintain an excellent quality of life for our residents and a strong economic base for local businesses for years to come.



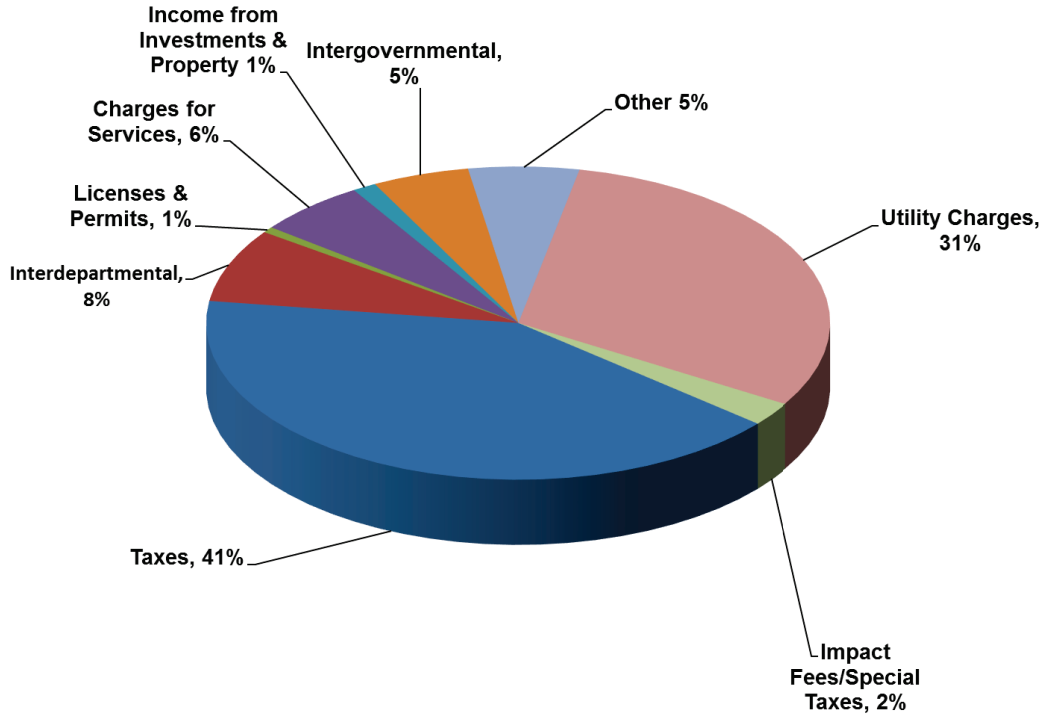
**STEVE SARKOZY**  
City Manager

# CITY OF CARLSBAD BUDGET HIGHLIGHTS

## FISCAL YEAR 2014-15

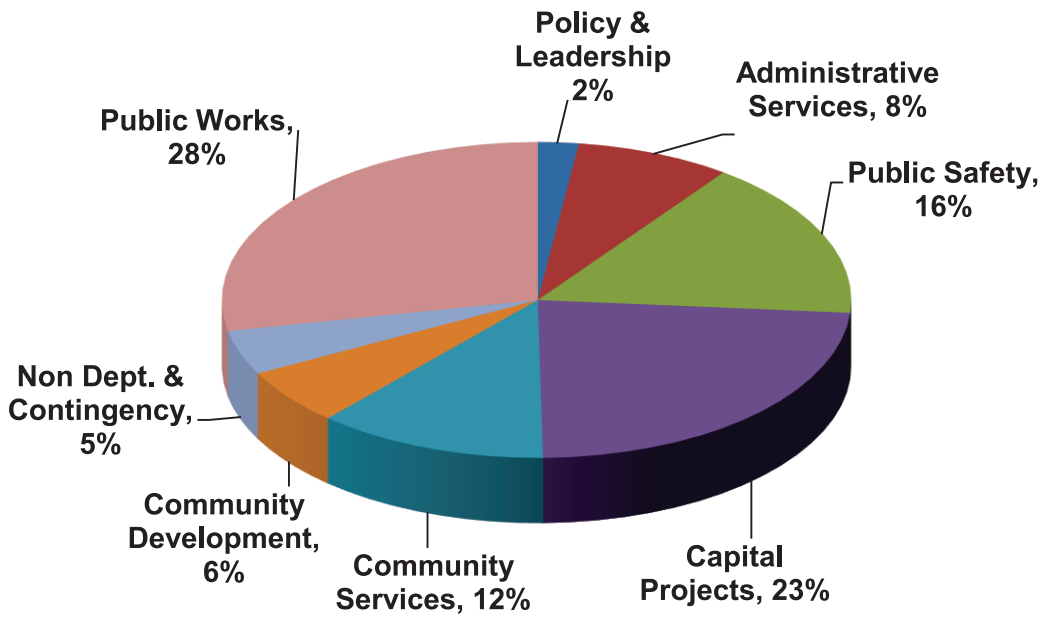
### WHERE THE MONEY COMES FROM...

**ESTIMATED REVENUES \$282.7 MILLION**



### WHERE THE MONEY GOES...

**ADOPTED BUDGET \$297.1 MILLION**



## CITY OF CARLSBAD BUDGET HIGHLIGHTS

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The city's budget is comprised of two pieces, the Operating Budget and the Capital Improvement Program Budget (CIP). The CIP provides the funds to build the parks, roads, buildings, and other infrastructure of the city, while the Operating Budget provides the money to staff and operate the facilities and infrastructure, as well as provide important services to the citizens and visitors of Carlsbad. The operating budget totals \$227.4 million and is expected to generate \$234.1 million in revenues. The CIP contains the current year budget allocation of \$69.7 million and outlines approximately 258 future projects at a total cost of \$496 million. Capital revenues for Fiscal Year 2014-15 are estimated at \$48.6 million. The capital projects include parks, civic facilities, as well as infrastructure needs anticipated for the future that are not expected to be constructed by developers.



The budget overview on the following pages will provide the reader with a good understanding of the budget process and the economic profile of the city, as well as providing a broad overview of the services and projects planned for the 2014-15 Fiscal Year. This section also addresses debt management, including a schedule of the outstanding bond issues. More detail on the city's numerous programs and projects can be found throughout the remainder of the document.

### BUDGET PROCESS

At the beginning of each year, the City Council meets to develop goals that help city staff prioritize programs, projects and services, as well as the resources required to fund them. Based on this direction, along with input received at public workshops, city staff finalizes the overall city work plan and develops the proposed annual budget for the coming fiscal year. The City Council adopts the formal budget for all funds prior to the beginning of each fiscal year and may amend those budgets throughout the year, as necessary. The legal level of budgetary control is at the fund level and budgetary control is maintained through the city's accounting system. Expenditures may not exceed budgeted amounts at the fund level.

The Carlsbad City Council has set a vision to make Carlsbad a truly world class city by fulfilling the core values outlined in the community's vision of the future, with a particular emphasis in several strategic areas of focus.

#### City of Carlsbad Community Vision

- ***Small town feel, beach community character and connectedness***  
Enhance Carlsbad's defining attributes—its small town feel and beach community character. Build on the city's culture of civic engagement, volunteerism and philanthropy.
- ***Open space and the natural environment***  
Prioritize protection and enhancement of open space and the natural environment. Support and protect Carlsbad's unique open space and agricultural heritage.
- ***Access to recreation and active, healthy lifestyles***  
Promote active lifestyles and community health by furthering access to trails, parks, beaches and other recreation opportunities.
- ***The local economy, business diversity and tourism***  
Strengthen the city's strong and diverse economy and its position as an employment hub in north San Diego County. Promote business diversity, increased specialty retail and dining opportunities, and Carlsbad's tourism.

## **CITY OF CARLSBAD BUDGET HIGHLIGHTS**

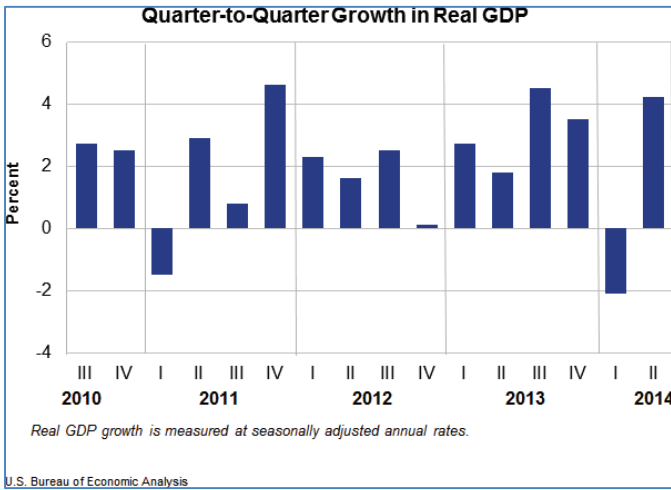
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- ***Walking, biking, public transportation and connectivity***  
Increase travel options through enhanced walking, bicycling and public transportation systems. Enhance mobility through increased connectivity and intelligent transportation management.
- ***Sustainability***  
Build on the city's sustainability initiatives to emerge as a leader in green development and sustainability. Pursue public/private partnerships, particularly on sustainable water, energy, recycling and foods.
- ***History, the arts and cultural resources***  
Emphasize the arts by promoting a multitude of events and productions year round. Cutting edge venues to host world class performances, and celebrate Carlsbad's cultural heritage in dedicated facilities and programs.
- ***High quality education and community services***  
Support quality, comprehensive education and lifelong learning opportunities, provide housing and community services for a changing population, and maintain a high standard for citywide public safety.
- ***Neighborhood revitalization, community design and livability***  
Revitalize neighborhoods and enhance citywide community design and livability. Promote a greater mix of uses citywide, more activities along the coastline and link density to public transportation. Revitalize the downtown Village as a community focal point and a unique and memorable center for visitors, and rejuvenate the historic Barrio neighborhood.

In FY 2014-15, the city organization will continue to adapt to changing needs and expectations by being adaptable, responsive and efficient, delivering the most cost effective, high quality services and retaining a highly trained, flexible and responsive staff. Given the importance of a strong local economy, the city will continue its work to create jobs by attracting talent to Carlsbad and helping existing business to thrive. In the coming year, the city is on track to complete its General Plan update, adapting city land use policies to address population and demographic trends while maintaining the city's high standards and quality of life. The city will also complete its parks and recreation needs assessment, charting a course for the future development of parks, community centers and recreational services. Carlsbad streets will continue to evolve to accommodate and encourage all modes of transportation, not just cars. And, the city will maintain a strong focus on fostering the next generation of community leaders through programs, training and engagement opportunities at all levels of city government.

Carlsbad's operating budget is a tool that guides the achievement of Council's vision, goals, and priority projects for the city. The budget allocates resources to city programs in accordance with priorities established by residents and the Council. Thus, it is an integral part of making Carlsbad a wonderful community in which to live, work and play. In addition, the budget is fiscally conservative and balanced, and provides a blueprint to effectively sustain the community and essential city services far into the future.

## ECONOMIC PROFILE



The **US economy** is sputtering towards recovery, as indicators show signs of very modest improvement. According to the Bureau of Economic Analysis, the economy contracted by two percent in the first quarter of 2014, as measured by gross domestic product (GDP). Second quarter GDP showed growth of slightly more than four percent for the country. Economists believe that economic activity in the first quarter was stifled by unusually harsh weather conditions experienced in many areas of the United States and drought conditions persisting in the southwestern US. The unemployment

rate fell to 6.1 percent in June, an improvement over the 7.5 percent rate for June 2013. Nonfarm payroll increased by 288,000 in April, and February and March saw relatively strong growth in employment of over 200,000 per month. The UCLA Anderson forecast, released in April, predicts that GDP will grow at 3 percent through 2016 and that the unemployment picture will continue to improve, dropping to 5.4 percent by late 2016. UCLA economists expect inflation to raise modestly, to 2.5 percent in 2016, and that the Federal Funds rate will increase to 3 percent by the end of 2016.

Nationally, the housing market is cooling slightly, as indicated in the most recent Case-Shiller data for the twelve months ending in February. Compared to the year ending January 2014, the index indicated that home prices fell a very modest one-tenth of one percent. According to David M. Blitzer, Chairman of the Index Committee, "the annual rate cooled the most we've seen in some time." Housing starts remained under one million for 2013, but are expected to grow to almost 1.5 million in 2015, and is then expected to plateau as mortgage rates increase to over 6 percent, following inflation and Federal Reserve actions.

The national economy should continue a modest expansion over the next few years, as businesses and consumers increase consumption. The rising stock prices witnessed in 2013 (the Standard & Poors index rose by 26 percent during the year) should excite consumer spending and take pressure off retirement accounts and corporate spending is also likely to increase, as businesses replace aging capital equipment.

The **California economy** continues to improve, marginally, although the effects of the drought may have some minor negative effects on the recovery, particularly in employment. According to Bureau of Labor Statistics (BLS) data, the employment picture has improved over the past years, as preliminary numbers for March indicate that the unemployment level has dropped to 8.1 percent (keep in mind that the state reached an unemployment rate of 12.3 percent in 2010). The state's unemployment rate is not expected to dip to 6 percent until 2016, according to the Anderson Forecast.

While the state economy and employment pictures improve, California is still an economically bifurcated state. In the western portion of the state, employment gains have outpaced those at the national level. However, the inland counties have seen shrinkage in government and construction sectors, which continue to put a drag on a slow recovery. Home prices show positive signs in coastal California, compared to the national averages. The most recent Case-Shiller Home Price Index indicated an overall year-over-year increase of 12.9 percent for February. However, Los Angeles, San Diego, and San Francisco all topped 18 percent rates of